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RUEHLP/AMEMBASSY LA PAZ AUG 0004
RUEHPE/AMEMBASSY LIMA PRIORITY 0847
RUEHSG/AMEMBASSY SANTIAGO PRIORITY 2996
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C O N F I D E N T I A L QUITO 002011

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DEPARTMENT PLEASE PASS TO USTR

E.O. 12958: DECL: 08/08/2016
TAGS: PGOV PREL ETRD ENRG EC
SUBJECT: ECUADOR'S BACHELET PARTY

Classified By: PolOff Acquania Gibbs for Reason 1.4(b&d)

¶1. (U) Summary: Chile's president, Michelle Bachelet, made her inaugural visit to Ecuador August 7-8. She announced several initiatives to deepen trade relations and offer assistance to Ecuador's petroleum sector, while promoting a well-received message of hope, democratic strengthening, economic opportunity and social justice. While the atmospherics of the visit were excellent and the substance of the visit largely complements USG interests here, it remains to be seen if Ecuador will be able to follow Chile's example.
End Summary.

¶2. (U) Bachelet traveled to Ecuador with a delegation of diplomats and members of parliament, including the Chancellor, Minister of Mining and Energy, and Vice President of the Chamber of Deputies. After a visit to the pediatric unit at Eugenio Espejo Hospital, where she met with children and Chilean volunteers who work at the hospital, Bachelet paid homage to heroes from August 10, 1809 in a ceremony in Independence Plaza.

Atmospherics Good

¶3. (U) In several well-received public speeches, Bachelet highlighted historic ties between Ecuador and Chile, which now include a combined military engineering contingent working under UN auspices to help rebuild Haiti. Bachelet also emphasized democratic strengthening, saying that democracy's benefits must be made more tangible to people. To achieve this requires national consensus among politicians, business, and civil society to promote growth and equity. She also emphasized the importance of using economic policy to promote social goals. Speaking at the inauguration of a development program sponsored by Ecuador's Central Bank, she emphasized an open economy and regulated financial markets as key to a successful development strategy. On regional integration, she emphasized moving from theory to practice. As a sidelight, she highlighted other aspects of Ecuador's and Chile's bilateral relationship such as the social security agreement allowing Chileans working in Ecuador and Ecuadorians in Chile to collect social security benefits from their respective countries. She also thanked Ecuador for offering refuge to Chileans during Chile's "difficult years."

Chile-Ecuador Trade Accord, Economic Ties Broadened

¶ 4. (U) In a private meeting with Ecuadorian President Palacio, the leaders agreed to broaden the "Economic Complementation Agreement", a trade accord between Ecuador and Chile in effect since 1994. The initial agreement contained numerous exemptions, but the expansion protocol signed yesterday will enable freer trade and adds a commercial dispute settlement mechanism, a clear judicial framework to encourage the flow of investment, and a legal framework for trade in services. Bachelet expressed hope that this would lead to a "liberalizing commercial agreement" (free trade agreement) between the two countries in the near future.

¶ 5. (U) In a speech before the National Congress, Bachelet highlighted the fact that trade between Chile and Ecuador doubled from 2003 to 2005. She acknowledged receipt of a formal invitation to become an associate member of the Community of the Andean Nations (CAN), and noted that Chile will respond affirmatively soon. Bachelet also announced that Chile would support Ecuador's membership in the Asian Pacific Economic Cooperation when the ten-year moratorium on new members concludes in 2007.

Chilean Investment in Petroecuador

¶ 6. (U) Palacio and Bachelet also signed a strategic alliance agreement between ENAP, Chile's state-owned oil company, and Petroecuador. ENAP will invest 37 million dollars into Petroecuador's crude oil production in the Mauro Dávalos Cordero fields of the Amazonia region. The countries plan to study the feasibility of ENAP refining Petroecuador's crude oil, and Chile providing liquefied natural gas, gasoline, and diesel to Petroecuador. Both companies also committed to exchange experience and technical assistance in order to develop other fields. They hope to produce 13,300 barrels per day and eventually drill an additional six oil wells.

¶ 7. (C) Comment: In June, press reports appeared indicating ENAP's interest in Block 15, formerly run by Occidental Petroleum. In private conversation with the president of Ecuador's hydrocarbons association, he mentioned that ENAP could be interested in running Occidental's former Block 15 under this agreement, but that they are not technically capable of managing the block. No evidence has appeared to substantiate rumors of ENAP interest in Block 15. End comment.

Comment

¶ 8. (C) Bachelet is a media star and heroine to most Ecuadorians, and her messages on democracy, trade, regional integration and social equity were perfectly pitched to local nationalist sensitivities (e.g. in her litany of FTAs signed or planned by Chile, the Chile-US FTA was not mentioned) and will hopefully provoke new reflection here about Ecuador's true interests. With the possible exception of her offer of ENAP assistance to help Ecuador overcome its self-inflicted damage to the petroleum sector, Bachelet's messages complement USG policy interests in Ecuador. Her personal credibility here, and Ecuador's historic ties to Chile, meant that those messages were received far more warmly than to which the US could ever hope to aspire. End comment.

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